

Fiscal Services Division Legislative Services Agency Fiscal Note

HF 729 - Public Pension Omnibus (LSB 1330 HV)
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 Fiscal Note Version - New

Description

House File 729 makes substantive changes to the Iowa Public Employees' Retirement System (IPERS) and the Iowa Judicial Retirement System. This Fiscal Note will examine the substantive changes with a significant cost.

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)

The Bill permits the IPERS to adjust the total employee and employer contribution rates by up to 0.50% each year beginning in FY 2007, and ending in FY 2014, with the employee paying 40.00% (0.20%) and the employer paying 60.00% (0.30%) above the current applicable percentages. The current applicable percentage for employees is 3.70% and for employers it is 5.75%, for a total contribution of 9.45%. The maximum contribution rate could be 5.30% for employees and 8.15% for employers, for a total contribution of 13.45%. After FY 2014, the rates will remain the same as in FY 2014.

The IPERS will only adjust the rates for the following year if the prior years combined contributions will be insufficient to amortize the unfunded actuarial liability of the System within 10 years by increasing the total contribution to a rate that will amortize the unfunded actuarial liability of the System within ten years. However, the combined rate will never be below the prior years rates.

The Bill requires the Public Retirement Systems Committee to study and report to the General Assembly, by January 1, 2006, on previous studies and reports pertaining to, pension flexibility, supplemental defined contribution plans, and cost-of-living adjustment plans.

Assumptions

1. A 4.00% annual payroll growth is assumed.
2. Contribution rates will only be impacted by the changes in the Bill.
3. The number of members by employer and covered payroll for FY 2004 are as follows:

<u>Employer</u>	<u>Active Member Counts</u>	<u>FY 2004 Covered Payroll (\$ in millions)</u>
State	19,584	\$ 881.7
Board of Regents	2,111	36.8
Counties	23,845	726.4
Cities	21,781	605.3
Schools	74,830	2,210.5
Community Colleges	3,659	115.5
Other	8,469	278.9
Total	<u>154,279</u>	<u>\$ 4,855.1</u>

4. The number of members in each class will remain constant.
5. A combined regular IPERS contribution will be insufficient to amortize the unfunded actuarial liability of the System within ten years in FY 2007 through FY 2014.

Fiscal Impact

The Regular IPERS employees' current contributions of 3.70% and employers' contributions of 5.75% will increase as follows:

	Employees' Contribution Rate	Employers' Contribution Rate	Total Contribution Rates
FY 2006	3.70%	5.75%	9.45%
FY 2007	3.90%	6.05%	9.95%
FY 2008	4.10%	6.35%	10.45%
FY 2009	4.30%	6.65%	10.95%
FY 2010	4.50%	6.95%	11.45%
FY 2011	4.70%	7.25%	11.95%
FY 2012	4.90%	7.55%	12.45%
FY 2013	5.10%	7.85%	12.95%
FY 2014	5.30%	8.15%	13.45%
FY 2015	5.30%	8.15%	13.45%

ATTACHMENT 1 provides a detailed explanation of the impact of HF 729 on the employees and employers, by employer group for FY 2007 through FY 2015. The average change per employee varies by employer group due the variance in the average wage of the groups. An employee that earns a higher wage will have their contribution increase more than an employee with a lower wage.

The total employer increases are \$16.4 million for FY 2007 and \$34.1 million for FY 2008. The estimates are broken out as follows:

(Dollars in Millions)

Employer	FY 2007	FY 2008
State	\$ 3.0	\$ 6.2
Board of Regents	0.1	0.3
Counties	2.5	5.1
Cities	2.0	4.2
Schools	7.5	15.5
Community Colleges	0.4	0.8
Other	0.9	2.0
Total Regular	\$ 16.4	\$ 34.1

There will be no significant fiscal impact for the Public Retirement Systems Committee report on previous studies and reports pertaining to, pension flexibility, supplemental defined contribution plans, and cost-of-living adjustment plans.

JUDICIAL RETIREMENT SYSTEM

The Bill makes two changes to the Judicial Retirement System.

The Bill changes how a judge's contribution is calculated. Under current law, judges contribute 5.00% of their salary. The Bill increases the contribution to 6.00%, if the State contributes the required 23.70% of covered payroll. If the State fails to fully fund the State's share, the judges

required contribution is based upon the ratio of the State's actual contribution to the required contribution. Once the System is fully funded, which is defined by the Bill to be 90.00% of the Systems actuarially determined liabilities, the judges and the State will contribute 50.00% of the required contribution. The required contribution is defined by the Bill to mean the rate that will amortize any unfunded liabilities of the System with 20 years.

The Bill reduces the vesting requirement from six years to four years. When a judge becomes vested, the judge is eligible to obtain a retirement annuity rather than the return of the judge's contribution.

The Bill also reduces the number of years of service a judge must have in order to receive an unreduced retirement allowance from the current 25 years to 20 years, as long as the judge is at least 50 years of age.

The Bill increases the multiplier that is used to determine the retirement payment from 3.00% to 3.25% per year of service, and increases maximum percentage of the judge's salary that payments are based upon to 65.00% from 60.00%. The multiplier is also increased for judges on senior status without an increase in the maximum percentage.

Assumptions

1. The covered payroll for FY 2006 will be \$22.0 million.
2. Under current law, the State would be required to contribute \$5.2 million (23.70% of covered payroll). The Judges would be required to contribute \$1.1 million (5.00% of covered payroll). The State would be contributing 82.58% and the judges would be contributing 17.42%, of the total funding.
3. While the State contributed \$2.0 million in FY 2005, the estimate assumes the State will fully fund the State's 23.70% contribution at \$5.2 million.
4. The actuarial calculation for reducing the number of years of service a judge must have in order to receive an unreduced retirement allowance from the current 25 years to 20 years requires a 2.52% increase in contributions.
5. While the actuarial calculation for increasing the multiplier that is used to determine the retirement payment from 3.00% to 3.25% per year of service, and increasing the maximum percentage of the judge's salary that payments are based upon to 65.00% from 60.00% is not available, a 3.50% multiplier with a 70.00% maximum percentage would require a 6.91% increase in contributions.

Fiscal Impact

Under this Bill, if the State notwithstanding the 23.70% required contribution and continues to contribute \$2.0 million, this would be 9.29% of covered payroll, and the Judges would be required to contribute \$507,000 (2.31% of covered payroll). The State would be contributing 80.09% and the judges would be contributing 19.91%, of the total funding.

Under this Bill, the State would be required to contribute \$5.2 million (23.70% of covered payroll). The Judges would be required to contribute \$1.3 million (6.00% of covered payroll). The State would be contributing 79.80% and the judges would be contributing 20.20%, of the total funding.

The judges' contributions will increase by an estimated \$220,000 annually due to increasing their contribution from 5.00% to 6.00%.

Reducing the number of years of service a judge must have in order to receive an unreduced retirement allowance from the current 25 years to 20 years will have an estimated negative annual impact on the System of \$554,000.

Increasing the multiplier that is used to determine the retirement payment from 3.00% to 3.25% per year of service, and increasing the maximum percentage of the judge's salary that payments are based upon to 65.00% from 60.00% will have an estimated negative annual impact on the System of less than \$1.5 million.

The State making the required contribution will benefit the System by an estimated \$3.2 million annually.

The net benefit to the Judicial Retirement System of House File 729 will be an estimated \$1.4 million annually.

Sources

Iowa Public Employees' Retirement System (IPERS)
Milliman USA Consultants and Actuaries
Iowa Judicial Retirement System

/s/ Holly M. Lyons

March 17, 2005

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Attachment 1

Employer	Active Member Counts	FY 2004 Covered Payroll	Fiscal Year	Current Law Employer Contribution Rate	Adjusted Employer Contribution Rate	Rate Change	Employer Total Contribution Change	Current Law Employee Contr. Rate	Adjusted Employee Contribution Rate	Rate Change	Total Employee Contribution Change	Average Change Per Employee
State	19,584	\$ 881,689,127	FY 2004	5.75%	5.75%	0.00%	\$ 0	3.70%	3.70%	0.00%	\$ 0	\$ 0
	19,584	916,956,692	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	19,584	953,634,960	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	19,584	991,780,358	FY 2007	5.75%	6.05%	0.30%	2,975,341	3.70%	3.90%	0.20%	1,983,561	101
	19,584	1,031,451,572	FY 2008	5.75%	6.35%	0.30%	6,188,709	3.70%	4.10%	0.20%	4,125,806	211
	19,584	1,072,709,635	FY 2009	5.75%	6.65%	0.30%	9,654,387	3.70%	4.30%	0.20%	6,436,258	329
	19,584	1,115,818,021	FY 2010	5.75%	6.95%	0.30%	13,387,416	3.70%	4.50%	0.20%	8,924,944	456
	19,584	1,160,242,742	FY 2011	5.75%	7.25%	0.30%	17,403,641	3.70%	4.70%	0.20%	11,602,427	592
	19,584	1,206,652,451	FY 2012	5.75%	7.55%	0.30%	21,719,744	3.70%	4.90%	0.20%	14,479,829	739
	19,584	1,254,918,549	FY 2013	5.75%	7.85%	0.30%	26,353,290	3.70%	5.10%	0.20%	17,568,860	897
	19,584	1,305,115,291	FY 2014	5.75%	8.15%	0.30%	31,322,767	3.70%	5.30%	0.20%	20,881,845	1,066
	19,584	1,357,319,903	FY 2015	5.75%	8.15%	0.00%	32,575,678	3.70%	5.30%	0.00%	21,717,118	1,109
Board of Regents	2,111	\$ 36,817,920	FY 2004	5.75%	5.75%	0.00%	\$ 0	3.70%	3.70%	0.00%	\$ 0	\$ 0
	2,111	38,290,637	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	2,111	39,822,262	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	2,111	41,415,153	FY 2007	5.75%	6.05%	0.30%	124,245	3.70%	3.90%	0.20%	82,830	39
	2,111	43,071,759	FY 2008	5.75%	6.35%	0.30%	258,431	3.70%	4.10%	0.20%	172,287	82
	2,111	44,794,629	FY 2009	5.75%	6.65%	0.30%	403,152	3.70%	4.30%	0.20%	268,768	127
	2,111	46,586,414	FY 2010	5.75%	6.95%	0.30%	559,037	3.70%	4.50%	0.20%	372,691	177
	2,111	48,449,871	FY 2011	5.75%	7.25%	0.30%	726,748	3.70%	4.70%	0.20%	484,499	230
	2,111	50,387,866	FY 2012	5.75%	7.55%	0.30%	906,982	3.70%	4.90%	0.20%	604,654	286
	2,111	52,403,380	FY 2013	5.75%	7.85%	0.30%	1,100,471	3.70%	5.10%	0.20%	733,647	348
	2,111	54,499,516	FY 2014	5.75%	8.15%	0.30%	1,307,988	3.70%	5.30%	0.20%	871,992	413
	2,111	56,679,496	FY 2015	5.75%	8.15%	0.00%	1,360,308	3.70%	5.30%	0.00%	906,872	430
County	23,845	\$ 726,405,870	FY 2004	5.75%	5.75%	0.00%	\$ 0	3.70%	3.70%	0.00%	\$ 0	\$ 0
	23,845	755,462,105	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	23,845	785,680,589	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	23,845	817,107,813	FY 2007	5.75%	6.05%	0.30%	2,451,323	3.70%	3.90%	0.20%	1,634,216	69
	23,845	849,792,125	FY 2008	5.75%	6.35%	0.30%	5,088,753	3.70%	4.10%	0.20%	3,399,169	143
	23,845	883,783,810	FY 2009	5.75%	6.65%	0.30%	7,954,054	3.70%	4.30%	0.20%	5,302,703	222
	23,845	919,135,162	FY 2010	5.75%	6.95%	0.30%	11,029,622	3.70%	4.50%	0.20%	7,353,081	308
	23,845	955,900,569	FY 2011	5.75%	7.25%	0.30%	14,338,509	3.70%	4.70%	0.20%	9,559,006	401
	23,845	994,136,592	FY 2012	5.75%	7.55%	0.30%	17,894,459	3.70%	4.90%	0.20%	11,929,639	500
	23,845	1,033,902,055	FY 2013	5.75%	7.85%	0.30%	21,711,943	3.70%	5.10%	0.20%	14,474,629	607
	23,845	1,075,258,138	FY 2014	5.75%	8.15%	0.30%	25,806,195	3.70%	5.30%	0.20%	17,204,130	721
	23,845	1,118,268,463	FY 2015	5.75%	8.15%	0.00%	26,838,443	3.70%	5.30%	0.00%	17,892,295	750
City	21,781	\$ 605,278,594	FY 2004	5.75%	5.75%	0.00%	\$ 0	3.70%	3.70%	0.00%	\$ 0	\$ 0
	21,781	629,489,738	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	21,781	654,669,327	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	21,781	680,856,100	FY 2007	5.75%	6.05%	0.30%	2,042,568	3.70%	3.90%	0.20%	1,361,712	63
	21,781	708,090,344	FY 2008	5.75%	6.35%	0.30%	4,248,542	3.70%	4.10%	0.20%	2,832,361	130
	21,781	736,413,958	FY 2009	5.75%	6.65%	0.30%	6,627,726	3.70%	4.30%	0.20%	4,418,484	203
	21,781	765,870,516	FY 2010	5.75%	6.95%	0.30%	9,190,446	3.70%	4.50%	0.20%	6,126,964	281
	21,781	796,505,337	FY 2011	5.75%	7.25%	0.30%	11,947,580	3.70%	4.70%	0.20%	7,965,053	366
	21,781	828,365,551	FY 2012	5.75%	7.55%	0.30%	14,910,580	3.70%	4.90%	0.20%	9,940,387	456
	21,781	861,500,173	FY 2013	5.75%	7.85%	0.30%	18,091,504	3.70%	5.10%	0.20%	12,061,002	554
	21,781	895,960,180	FY 2014	5.75%	8.15%	0.30%	21,503,044	3.70%	5.30%	0.20%	14,335,363	658
	21,781	931,798,587	FY 2015	5.75%	8.15%	0.00%	22,363,166	3.70%	5.30%	0.00%	14,908,777	684
Schools	74,830	\$ 2,210,526,742	FY 2004	5.75%	5.75%	0.00%	\$ 0	3.70%	3.70%	0.00%	\$ 0	\$ 0
	74,830	2,298,947,812	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	74,830	2,390,905,724	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	74,830	2,466,541,953	FY 2007	5.75%	6.05%	0.30%	7,459,626	3.70%	3.90%	0.20%	4,973,084	66
	74,830	2,566,003,631	FY 2008	5.75%	6.35%	0.30%	15,516,022	3.70%	4.10%	0.20%	10,344,015	138
	74,830	2,689,443,776	FY 2009	5.75%	6.65%	0.30%	24,204,994	3.70%	4.30%	0.20%	16,136,963	216
	74,830	2,797,021,528	FY 2010	5.75%	6.95%	0.30%	33,564,258	3.70%	4.50%	0.20%	22,376,172	299
	74,830	2,908,902,389	FY 2011	5.75%	7.25%	0.30%	43,633,536	3.70%	4.70%	0.20%	29,089,024	389
	74,830	3,025,258,484	FY 2012	5.75%	7.55%	0.30%	54,545,653	3.70%	4.90%	0.20%	36,303,102	485
	74,830	3,146,268,824	FY 2013	5.75%	7.85%	0.30%	66,071,645	3.70%	5.10%	0.20%	44,047,764	589
	74,830	3,272,119,577	FY 2014	5.75%	8.15%	0.30%	78,530,870	3.70%	5.30%	0.20%	52,353,913	700
	74,830	3,403,004,360	FY 2015	5.75%	8.15%	0.00%	81,672,105	3.70%	5.30%	0.00%	54,448,070	728
Community Colleges	3,659	\$ 115,454,892	FY 2004	5.75%	5.75%	0.00%	\$ 0	3.70%	3.70%	0.00%	\$ 0	\$ 0
	3,659	120,073,088	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	3,659	124,876,011	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	3,659	129,871,052	FY 2007	5.75%	6.05%	0.30%	389,613	3.70%	3.90%	0.20%	259,742	71
	3,659	135,065,894	FY 2008	5.75%	6.35%	0.30%	810,395	3.70%	4.10%	0.20%	540,264	148
	3,659	140,468,529	FY 2009	5.75%	6.65%	0.30%	1,264,217	3.70%	4.30%	0.20%	842,811	230
	3,659	146,087,271	FY 2010	5.75%	6.95%	0.30%	1,753,047	3.70%	4.50%	0.20%	1,168,698	319
	3,659	151,930,761	FY 2011	5.75%	7.25%	0.30%	2,278,961	3.70%	4.70%	0.20%	1,519,308	415
	3,659	158,007,992	FY 2012	5.75%	7.55%	0.30%	2,844,144	3.70%	4.90%	0.20%	1,896,096	518
	3,659	164,328,312	FY 2013	5.75%	7.85%	0.30%	3,450,895	3.70%	5.10%	0.20%	2,300,596	629
	3,659	170,901,444	FY 2014	5.75%	8.15%	0.30%	4,101,635	3.70%	5.30%	0.20%	2,734,423	747
	3,659	177,737,502	FY 2015	5.75%	8.15%	0.00%	4,265,700	3.70%	5.30%	0.00%	2,843,800	777
Other: Townships	8,469	\$ 278,947,722	FY 2004	5.75%	5.75%	0.00%	\$ 0	3.70%	3.70%	0.00%	\$ 0	\$ 0
	8,469	290,105,631	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
Multi-Units	8,469	301,709,856	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
Utilities	8,469	313,778,250	FY 2007	5.75%	6.05%	0.30%	941,335	3.70%	3.90%	0.20%	627,557	74
	8,469	326,329,380	FY 2008	5.75%	6.35%	0.30%	1,957,976	3.70%	4.10%	0.20%	1,305,318	154
	8,469	339,382,556	FY 2009	5.75%	6.65%	0.30%	3,054,443	3.70%	4.30%	0.20%	2,036,295	240
	8,469	352,957,858	FY 2010	5.75%	6.95%	0.30%	4,235,494	3.70%	4.50%	0.20%	2,823,663	333
	8,469	367,076,172	FY 2011	5.75%	7.25%	0.30%	5,506,143	3.70%	4.70%	0.20%	3,670,762	433
	8,469	381,759,219	FY 2012	5.75%	7.55%	0.30%	6,871,666	3.70%	4.90%	0.20%	4,581,111	541
	8,469	397,029,588	FY 2013	5.75%	7.85%	0.30%	8,337,621	3.70%	5.10%	0.20%	5,558,414	656
	8,469	412										